

**EPISODE 225****[INTRODUCTION]**

**FT:** Hey So Money fans, welcome back. I am your host Farnoosh Torabi. Great episode for you today. You know in my "Ask Farnoosh" episodes, which air on Saturdays and Sundays, I often get questions about financial advisors. You as me, "How do I know if I'm ready to work with one? How much do they cost? Is it worth it?" And I also receive a number of questions about the growing market of robo advisors or online advisors that claim to offer more affordable financial planning.

With robo advisors you don't get to meet with an advisor one on one but you receive a virtual plan that addresses your goals and then these companies go on to invest your money according to that plan. And many people are participating particularly people like us, millennials, Gen-Xers. We may not have millions in the bank but we have some money, a little bit of money and we'd like to make sure that that is being invested smartly and properly. So, there is this market place and there is this confusion around it too likes; does it really work, is it a smarter way to invest necessarily? And because of this confusion I've decided to invite today's guest, co-founder and CEO of Betterment, Jon Stein.

Betterment launched in 2008 and as the company says it's a smarter and automated investing service that provides optimized returns for individual IRA, Roth IRA, and rollover 401(k) accounts. And through diversification, automated rebalancing, better behavior and lower fees, Betterment customers can expect 4.3% higher returns than a typical 'do it yourself' investor. So, it is significantly cheaper than a traditional account, it is free to sign up for Betterment and as your account balance grows, so does your monthly fee. But, I'll tell you it is significantly cheaper than a traditional account fee.

Now back to Jon, he comes from a background in financial services, which is actually why he was compelled to start that because he thought there was a real misunderstanding, void, lack of trust in the financial services industry. And he is a graduate of Harvard and the Columbia Business School. Three take aways from my interview with Jon, why Betterment, why not work with a financial advisor like I do? What the 'nay-sayers' say about Betterment and its cookie

cutter model of robo advising? And Jon's biggest money mistake, I believe this is the mistake that involved Enron - remembers Enron? Lots to discuss.

Here is today's guest, Jon Stein.

[00:03:07]

[INTERVIEW]

**FT:** Jon Stein welcome to SM. Excited to have you on the show. Thanks for joining.

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**JS:** Great to be here. Thanks Farnoosh.

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**FT:** You're the CEO of Betterment, which I have to say, I'm really excited to share this company and its mission with our listeners as many of our listeners have been writing in asking questions about, "How do I get the financial help that I need?" I understand there's all these websites and robo advisories and etc., and so. I thought whom better to really interview than Betterment that is a leader in this space of online financial services. You have over a 100,000 clients, you have asset under management of \$2.5 billion. But perhaps more importantly, your target audience is the So Money audience. Aspirational young adults who are careful and mindful about their spending and investing and they know that they need help, they just don't know whom to trust.

Let's talk about trust first Jon. I find that, since maybe 2007 - 2008, there's been a lot of disruption in the market of trust as far as how the millennials are seeing it. You know, they don't maybe trust how money has been managed previously where you go to a bank or you go to a financial advisor and they put your money into all these different accounts and then they are expected to retire well at 65. There's been some skepticism that's been brewing over the past several years. I think partly because of the market crash and then also, there are just, there's

been a lot of bad news. So, where does Betterment arrive at this place where now we have an entire generation that doesn't know who to trust?

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**JS:** I have the same feeling. I don't trust financial service companies. I used to work on Wall Street. I worked for many of the country's largest banks as a consultant and I found that in my work with them they very rarely thought of their customers or what was in their customers' best interest. It was the last consideration if they even did think about it. And it's for good reason that people don't trust financial services because in my experience they have reason to question those companies' intentions. It's been too long and there's too much money made and so that the financial services companies have started to neglect their customers.

And all of these reasons, the experiences that I had on the inside, my own experiences as a consumer and having trouble managing my finances in an intelligent way, given the tools that were available. All of these experiences let me to found Betterment. And I started from a place of customer alignment. So we are a fiduciary advisor. Fiduciary means that we are legally required to act in our customers' best interests. And it is a great thing and most Americans do not have access to a fiduciary advisor, maybe less than a percent actually have a fiduciary advisor today and it tends to be the wealthiest folks.

But with Betterment we have made fiduciary advice accessible to everyone for the first time ever and we are providing advice from a standpoint of what's in the best interest of the customer and making that kind of advice available to everyone. And I think that is a really revolutionary idea and something that will become more and more popular as people figure out just how important it is what we're doing.

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**FT:** And walk me through Betterment. Let's say I am a potential client. I am 20 something, 30 something years old. I have, I think what's great is I don't need a lot of money to get started on Betterment. I don't need any money, I mean you're trying to really democratize the financial

services industry, which is great, but what would like kind of be the first experience for somebody who is a client at Betterment?

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**JS:** Customers come to Betterment, most often at the recommendation of a friend or a family member. And they tell us about their goals and those goals can be things like: "I want to save for retirement", is the most common one or "I want to save for a down payment on a house" or "I am saving for my kids' College" or "I am just saving to just build wealth". Whatever your goals are, we look at those, and we look at the time horizon for that goals and then we make recommendations for you about how much you should be saving, about what your portfolio should be, how you should invest the money, what accounts you should investing in.

And I don't only make those recommendations, we then execute on those. If you give us the go ahead, we will go ahead and create the right accounts, we'll create the right portfolio mix into those accounts. We will start an auto deposit into those accounts to make sure that you are on track to your goal. And over time we will report to you whether you are on track, so you have true peace of mind. We'll monitor the account for tax and cost efficiency. So we take care of things like tax loss harvesting and we avoid wash sales and all the kind of tricky tax things that nobody paid attention to but could end up costing you a lot in taxes, we take care of that for you.

So we do all the burden of investing for you and give you great advice. So that you can just go back to doing the things you enjoy most in life.

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**FT:** I was reading about you, Betterment's - Jon Stein and Betterment - and other players in this space, similar to Betterment on money.com. And I think it was a pretty, it was a pretty supportive piece - money can tend to be pretty critical, especially money as writes in traditional magazine, their audiences are very traditional but yet they seem to really understand and appreciate what you're trying to accomplish. One, perhaps piece of criticism, although I don't know if it's really been proven is that you know, this idea of working with robo advisors as apposed to one on one with a financial advisor is that you're getting a relatively cookie cutter plan. Which I don't know if

that is such a bad thing. What would you say to that when people say, "Oh you're just getting kind of a, you know, just this very template plan for your investment portfolio which, you know, is not the one on one care that you would get working with a financial advisor."

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**JS:** I think people can flake things. Yes, there is not a sit down conversation with an advisor but that doesn't say anything about the quality of the advice. From our service you get a totally personalized portfolio that's appropriate for you. There are 75 million American investors and there are 75 million unique plans at Betterment. Everyone has something that's customized to them, to their life, to their income, to their goals and so, it is completely personalized. And beyond that, we're doing more than most advisors to optimize that portfolio for you. So if you're in New York you get NY community bonds, if you're in California you get Californian community bonds. It's personalized to your location.

If you're saving in an IRA we'll manage your taxes across your IRA and your tax bill accounts. Most advisors don't have the time to do this for you. They might know it's a good idea, if they are good advisors but for what most people can pay their advisors, the advisors do not have time to go and do those kinds of things. You're actually getting a lot better, more personalized service with Betterment than you do through sort of a generic, you know, financial plan from somewhere else. There are great advisors out there and I want to stress that we work with a lot of great advisors...

**FT:** Yes.

**JS:** ...on the institutional side.

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**FT:** Well and actually I met an advisor this weekend at podcast movements, Sophia Bera, who runs Gen Y Planning. She'll be on the show later this month. She works with Betterment. She says, "Look I'm a financial planner, I do a lot of things outside of investing as well for my clients but when it comes to the investment portion of the relationship, I outsource that to Betterment,

because I think they do a great job." So, there are opportunities to even synergize with planners out there, as you say you already are doing.

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**JS:** Sophia is a great example of a great advisor who is taking care of her clients in a holistic way. She is thinking about their life goals, she is helping them set those up within Betterment and then delegating the asset management and the investment piece to Betterment. And that's a great approach for many investors.

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**FT:** So now Jon, tell us about your background. How did you get in this industry? Was that something that you've always been passionate about? Can you be passionate about finances from an early age or is that something that you just kind of found yourself in and the opportunities were there for grabbing?

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**JS:** I'm passionate about people and helping people make better decisions and I'm passionate about efficiency and helping people getting most out of things. So my interest lie at that intersection of economics and behavior or efficiency and people, said in another way, to help people make the most of what they have in life. And Betterment is a natural outgrowth of those passions. I've never been passionate about finance itself. It's just that I found financial services frustrating, I have a CFA that happened to know a lot about financial services and I found this to be a place where given my experiences and my background, I could provide a lot of value to people. So, I've invested in and made my career here.

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**FT:** What's your financial philosophy, if you had one?

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**JS:** My financial philosophy is to invest early, as early as you can and to automate as much as you can. We as investors, or as humans, I should say, are not very well equipped to think about the long term. Thirty years from now, we're just not evolved to think about what happens thirty years from now. We're pretty good in thinking what happens tomorrow and maybe a week from now but long time horizons are beyond us. And the idea of investing over 30 years or 50 years or whatever it is to retirement is something that we really do better to outsource to technology that can help us deal with these long time horizons and these problems that we're just not very adept at grabbling with.

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**FT:** And at Betterment you really help people with the short, medium and long term planning but this idea that you're just gonna be helping people with retirement, and actually that's not the case. And talk about smart deposit, that's something I recently read that you are introducing to your clients, I think it's brilliant.

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**JS:** Smart deposits are really exciting new feature that helps you to keep a target balance in your savings account and to move the rest into Betterment to invest that money and to put it to work. A lot of people wonder how they can save more and how they can avoid having money just sitting around in their bank account and then wanting to spend that money. And smart deposit helps to automatically sweeps some of that access cash away and to put it to work for your goals, to put your on track to reaching those goals faster without you having to do anything about it. So, it is a good way of using automation, to become more hands off and to manage your entire financial picture more holistically and intelligently.

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**FT:** Jon, take us back to when you were growing up. I am curious to learn about your exposure to the financial world at a young age and if there was a memory that you have, that you

remember that was pivotal, that was a real teachable moment, a lesson for you. What was it, where were you? What did you learn?

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**JS:** [Laughs] So, I've got a lot of experiences, I guess through the years - when I was really young I didn't know a lot about finance, nobody does. I remember my parents and grandparents, for years talking at Christmas time about how they wanted to get me Disney stock on year. And they said this for a few years in a row and I never did get the Disney stock they said they gonna give me that as a Christmas present. But they got me thinking about stock, they got me looking at the newspaper and reading the financial pages, just to see how the Disney stock had done, even though I didn't own it. And so I was curious about it and I was excited about the idea of studying economics at some point and try to better understand what finance was about.

It wasn't until, you know, I study economics as an undergrad and then it was after I graduated, I started investing. And I had some good bets but I made some bad bets. I bought Enron on the way down, which was like a terrible stock to buy.

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**FT:** Oh dear! [Laughs]

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**JS:** And I realized, you know, that although on the whole I was doing fine, I was subject to the same kind of behavioral biases and short term thinking that I'd read about in school in my Economics and Behavioral classes. And, you know, maybe I was thinking I was smarter than everybody else and I realized, in practice, I wasn't. And then I looked around, I looked at the tools I was using to invest and I saw that all of them were encouraging me to trade and do the wrong kinds of thing - they were encouraging me to buy individual stocks, they encourage me to revisit my portfolio and read some research and think about making changes.



That's exactly the wrong thing for people to be doing and I knew that but I had fallen prey to it nonetheless. So, I thought, why isn't anyone building a product that's better for people that really give the right advice from the start? And I saw the reason why I was - and I saw that reason through my work with the financial services companies. They were just not thinking about their customers, they were not thinking about what was in the best interest of those customers. And it seemed obvious to me that somebody should build a company that did that. And everyone said that's a bad idea, and everyone said that's gonna be a really difficult thing to build. I was dumb enough not to listen to everyone and that's how we got started.

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**FT:** Along the way you've probably had some great moments with your money. So Money moments, as we say on the show. What's one, and why was it special?

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**JS:** Wow, you know, I think I've been very lucky in life. We've obviously had some tough times and some great times. But, if I think about a financial win for me, it was when we first raised money for Betterment. We had bootstrapped for a while, we'd put a little bit of friends and family money to kind of get the business off the ground and, you know, my co-founder and I weren't paying ourselves salaries. We were really bootstrapping. And then, we launched at Tech Launch Disrupt. We got a lot of attention and investors start paying attention to us. And that fall we raise a series A. And I remember saying, "Maybe we will raise a million dollars" and the investors came back and said, "Well, a million dollars is fine how about you raised 3 million dollars?"

It just seemed like so much money to me. We worked for so long bootstrapping and just making everything so efficient and automating all of our work so that we could scrape by without hiring people and so on. Such an incredible thing to get that validation and that first cheque. And watching the cheque in our bank account was such an exciting thing. It took a lot of work to get there. It took years to get to that point and we've had a lot more work since. It wasn't the end obviously; it was just a starting point. But that was a really exciting money moment for me.

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**FT:** The thin tax spaces really, and I wasn't crowded, I think some really quality, outstanding products was been born out of this market and this need for more testable and lower cost financial products. And I have had many over the years on this show. But the same time there is only limited investment dollars. So, how do you confront an investor - just kinda give us some behind the scenes, if you could. Just a few pointers on how to really make the best case possible to earn yourself the start up capital if there is a listener on this show who's got a great idea. Whether it is in the business space, money space or any other space. How do you get an investor to write you a cheque?

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**JS:** Yeah, what I would start with is making it real. The advice that I often give to the founders is making it real as quickly as possible. So whatever that idea is, you can talk to people about it, you can describe it and people can say as they said to me: "Yeah, that's an interesting idea. Good luck with it!" [Laughs] You've gotta make it real. You've gotta build it, you've gotta get it to a point where you can put it in people's hands and they can touch and feel it and see how it works and see there is real traction.

So, for instance, you might build a website, you might build a markup of what you're working on to show to people. You might just do something as simple as make business cards and get an office and make it real. As you go through the motions of really building out the business that you're talking about, sooner or later you'll have a real business and then you can got something that people can get comfortable with and invest in.

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**FT:** Okay Jon, let's talk about failure. Failure is important right? We need, we learn from failure and in your experience what is a financial failure? Cause even Jon Stein, CEO Betterment can make missteps, right? We are all guilty of and vulnerable to financial regrets. What's one failure or regret? Doesn't have to be catastrophic, but something you look back with a little bit of a:

"Oh gee's, I can't believe I did that" but it was a good lesson learned"? Maybe it was investing in Enron as it was [Chuckles] heading south.

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**JS:** I think so. But that whole time in my life I look back on, as you know, "What was I thinking?" Why was I spending - I spent several hours a week reading the financial pages and kinda tracking stocks and marching my investments and doing my research. And I just think that's crazy. I can't believe I spent time doing that. What a waste. I could have been outside, you know [Laughs], enjoying things. When I think about the future, I think of the idea of managing our own money will someday seem as crazy as doing our own dental surgery. It's just not something people should be doing. And the reason is the financial industry - here I'm really talking about trading and investing and these kinds of things - the financial service industry is got us outgunned.

As retail investors, we don't stand a chance at buying individual stocks and outperforming the market when you've got people who spend their entire careers and have all kind of technology filled to take the other side of every trade that you might want to enter into. Things weren't as bad 10 years ago when, or 15 years ago when I was doing this but today you really don't stand a chance. The only thing, the only smart thing to do is to buy an index fund, to try and manage your cost and your taxes to a minimum and to do that through a service and an automated service, like Betterment, and we are the best at this, that will manage it for you in an intelligent way. It's really; it's crazy to do anything else.

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**FT:** Man, you must be really pissing off some financial advisors and more so specifically I would say traders. You people whom - portfolio managers. You know, before I picked my financial advisor I met with a few people and one particular person decided to impress me they gonna show how they - all the activity they're gonna do in my investment portfolio. Day in and day out, all the research, the buying and the selling and the this and the that. And I ultimately was like that's just not what I care about and that's probably not really worth my money or my time. And yet there are so many people who believe in that, in that system. Not only the people who are

working in that industry but also people who are their clients. What has been their reaction to Betterment? Tell us a little bit about the uglier side of this [laughing]. Of growing this business or maybe some of the negative -----[00:25:25] or just some of the backlash from those particular people. I would think you were really stepping on their territory.

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**JS:** You are right and you're smart to see through that and to say that's not what I need. And I think a lot of people these days are getting wise to that game. It's increasingly difficult for the old stock picking industry to make a living. Because people are getting wise to it and people realizing that there is not a lot of value in that game and they are being sold something that's not real. So, I think it's not, they are having a hard time and yes, there's been some backlash against folks like us but I also think there is just a broad general recognition in society that were right and there's, we might not be the one's who initiate it to the client of that industry. We are certainly providing a great alternative and providing a place for those assets to go as they flow out of active management and towards more long term, more thoughtful tax managed investing. It's going to continue and I think that the existing industry has some - there's some strong invested interest there. There is a lot of profitability in turning people's accounts and there are profits in selling the idea of outperformance. But the long-term trend, that we are part of this, is moving away from that and I think we've got research and evidence and history on our side.

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**FT:** Yeah, I would say a 120,000 plus customers is good evidence. How much is it by the way? I didn't even ask you this in the beginning but what is the financial commitment for somebody who is a Betterment client?

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**JS:** There is no minimum. Anyone can sign up for a Betterment account. And we have that policy so that anyone can try this, anyone can check it out. We encourage people to deposit at least a \$100 per month. Our average customer today keeps over \$25,000 with us. There is no

minimum to get started and we have customers with over 10 million dollars with us, we've got customers we're just starting out. So, it is a broad variety of people using Betterment.

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**FT:** What is your number one money habit Jon? Do you have, well I can already guess you're big into automation, you're big into passive investing - but perhaps from a daily standpoint or from a - I don't know just from a habit practice standpoint - what is something you do consciously to keep your money where it needs to be?

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**JS:** I tend to save money all the time. I am always thinking about efficiency, I am always thinking about not spending on things, I rarely go shopping and so on. And I guess that way I keep my bills down and I am able to enjoy something bigger or you know, make a splurge on something if I want because my general cost of living is so low. Although I live in NY City, I spend, and I have a family and everything here. I have cut my budget very tight and I think that lets me be happier because when you can live efficiently and frugally you can enjoy those occasional vacations or special things all the more. Other than if you live kind of an excessive life.

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**FT:** Yes absolutely. We actually just ran a series of Millionaires Next Door on this show and for absolutely a common thread is that these are people who, yes they are earning good incomes, but they are extremely conscious about how they are spending and saving and investing. They are not cheap but they are mindful about how their, about their consumption. And I think a good takeaway for everybody.

Are you ready for So Money fill in the blanks? Jon, this is the part of the show where I start a sentence and you finish it with the first thing that comes to your mind.

[00:29:52]

**JS:** Great. I am ready. [Both laugh]

[00:29:52]

**FT:** If I won the Lottery tomorrow, let's say someone dropped of a bag full of cash, 100 million dollars on your doorstep. First thing I would do is \_\_\_\_.

[00:30:05]

**JS:** Invest it in Betterment. Too easy. [Laughs]

[00:30:08]

**FT:** Oh well, second thing I would do is \_\_\_\_\_. [Both laugh]

[00:30:12]

**JS:** [Laughs] I would watch it grow [Laughs]

[00:30:19]

**FT:** All right. Oh my gosh, party at Jon's house. [Both laugh]

The one thing that I - and you cannot, this answer cannot be Betterment. The one thing that I spend my money on that makes my life easier or better is \_\_\_\_\_.

[00:30:34]

**JS:** Vacations. I love to take a good trip with my family.

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**FT:** Are you like a beach kind of guy or exploring the city, climbing mountains? What is your ideal vacations?

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**JS:** Beach is great in the summertime and it is nice to take a weekend. But I think I'd get sick of it after, you know if I spent more than a long weekend at the beach. So, for a longer vacation I like to go and explore some new place. So, in the last couple of years, I went to Japan, I went to Switzerland, we went to Turkey. So, I have taken my family to some exciting spots.

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**FT:** One splurge that I indulge myself in, you know, your biggest guilty pleasure is \_\_\_\_.

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**JS:** Maybe food. I have, I certainly like good food. I don't, I try not to spend too much on those. We eat most, most of the nights we eat at home and we cook, but I really appreciate a great meal, especially seafood.

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**FT:** Where is a good place to get a good seafood dinner? You once said you are in the bay area, right?

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**JS:** We're in New York City.

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**FT:** Oh you're in New York! Why do I think you're in the bay area? Did you ever - maybe....

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**JS:** Well maybe cause we're such a tech-driven company and there's a lot us out there.

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**FT:** Yeah. Huh, I like you even more, I like you even more. I like you even more.

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**JS:** [Laughs]

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**FT:** I really think I read an article where they mentioned that this was a San Francisco start up, but maybe I've read so many articles by now that they all confusing me but thanks for correcting that. And I do like you more because of it.

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**JS:** My favorite seafood restaurant, maybe Lazy Lobster on Cape Cod in the summers. That's it.

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**FT:** Oh yeah. If you can get on the island, it's so crowded.

Okay, one thing I wish I had known about money growing up is \_\_\_\_.

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**JS:** Oh wow! One thing I wish I know about money growing up is how important it is to save early. It is the biggest thing I think most people neglect. It is just so that the power of



compounding is so powerful. But if you save in your 20's it is twice as effective as if you save in your 30's and that's twice as effective as if you save in your 40's. And the result of all of that is any dollar you save in your 20's is something like 8 times more effective than every dollar you save in your 50's. It is a pretty remarkable thing.

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**FT:** Well, we said a lot on this show. Just start, you don't need a lot of money but the power of compounding interest will help you if you just start with something.

And when I donate money I like to give to \_\_\_\_ because \_\_\_\_.

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**JS:** I love to give to friends and family who are you know, sponsoring causes, running for things, you know, raising money for something. Feel like it is such a nice way to support your friends and support the causes that they believe in at the same time.

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**FT:** And last but not least: "I am Jon Stein, I am So Money because \_\_\_\_."

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**JS:** I am So Money because I talk about money all day long [Both laugh].

[00:33:56]

**FT:** You are literally, literally So Money because you just doesn't stop and thank you so much Jon. Like I said I really mean everything I said in the beginning I was so happy to have you on the show, I think this is going to be great episode for our listeners, real educational interview and I hope everybody checks out Betterment. And thank you for all the great work that your are doing.

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**JS:** Awesome. Thanks it's great to talk with you, really appreciate all the kind things that you said and I hope your listeners get some helpful tips out of it.

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[END]